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SUBJECT: SOUTH AFRICA: POLITICS STALLING LOW-INCOME HOUSING
FINANCE INITIATIVES

REF: A. PRETORIA 2022
[1](#)B. PRETORIA 347 (NOTAL)
[1](#)C. 05 PRETORIA 2621 (NOTAL)
[1](#)D. 04 PRETORIA 4503 (NOTAL)

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[1](#)1. (SBU) Summary. The ANC's Tripartite Alliance with the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP) has slowed down low-income housing finance initiatives, according to the Banking Association. The Housing Ministry sidelined a bilateral MOU concluded last year with the Banking Association due to complaints from COSATU and SACP. As members of the Black Economic Empowerment (BEE) Financial Sector Charter Council, COSATU and SACP would like any negotiations handled by the entire Council. Frustrated by the stalled progress, banks issued R17 billion (\$2.4 billion) in low-income loans on their own accord. The Council must now decide if these loans will count towards the BEE-sanctioned target of R42 billion (\$6 billion) by 2008. A Banking Association official criticized government for not offering incentives to contractors to assist with the short supply of low-income housing and encouraged U.S. partners to assist South Africa with financing through individual institutions. End Summary.

Tripartite Alliance Slowing Housing Finance Reform

[1](#)2. (SBU) According to Banking Association official Jopie van Honschooten, the Tripartite Alliance effectively negated the MOU between the Housing Ministry and the Banking Association last year. This MOU included areas to work on collectively to deliver on the Black Economic Empowerment (BEE) Financial Sector Charter target of delivering R42 billion (\$6 billion) in low-income housing finance by 2008 (Refs A and D). The five MOU areas involved: (1) consumer education; (2) housing subsidy amounts; (3) fixed-rate mortgages; (4) risk underpinning; and (5) other impediments such as slow deed transfers. Under this MOU, the South African Government (SAG) would have had to assist the banks with risk insurance and hedging of any fixed-rate mortgages. Getting wind of the MOU, Tripartite Alliance members -- namely the Congress of South African Trade Unions (COSATU) and the South African

Communist Party (SACP) -- balked at this bilateral agreement, saying that as members of the Financial Sector Charter Council, they should have been a part of the negotiations (Ref D).

¶3. (SBU) Last year's uproar from its Tripartite Alliance members forced the Housing Ministry to back down and sideline the MOU. The parties abandoned plans altogether for a government-backed mortgage insurance institution (similar to the U.S.'s Fannie Mae), but continued discussions on other matters. Frustrated with the stalled progress of talks, banks started offering low-income home loans on their own accord, totaling nearly R17 billion (\$2.4 billion) thus far. These loans, however, are currently "unsanctioned" by the Financial Charter Council and it is unknown if these loans will qualify under the BEE Charter. Van Honschooten thought that these loans should qualify as the loans' average interest rates have been prime plus 2.5% or about 13%, less than the 20% maximum allowed under the Charter.

¶4. (SBU) In May, COSATU and the SACP stalled progress once again with complaints about negotiations between the Banking Association and Housing Minister Lindiwe Sisulu. In her budget speech to Parliament, Sisulu announced that the Housing Ministry, the Banking Association, and the Financial Charter Council had finally agreed to move forward in terms of the 2005 MOU. She went on to say, however, that the Banking Association and the Housing Ministry were having ongoing discussions on the size and risk sharing of a second tranche of low-income home loans beyond the original R42 billion. (Note: Banks will assume all the first tranche's risk, but are looking to government to shoulder some of the risk for those who earn R1,500 to R5,500 (\$200 to \$800) per month in the second tranche. End Note.) COSATU's and SACP's complaints about these discussions have stopped these negotiations dead in their tracks. The parties have since

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shifted their focus on working through the Financial Charter Council to establish defined financial standards for BEE Charter "sanctioned" loans. Only time will tell if the banks' R17 billion in loans outstanding will be "sanctioned" by the Council and count towards the R42 billion. (Note: Van Honschooten also pointed out that the original target loan issuing amount was R50 billion, which would amortize to the R42 billion target. The new goal, however, has been revised to R40 billion issued, to amortize to R30 billion. End Note.)

SAG Housing Policy Critiques

¶5. (SBU) While supportive of the SAG's housing policy, van Honschooten offered critiques on its focus on the eradication of informal settlements, its economic viability, and the need to engage residential contractors (Refs B and C). According to van Honschooten, the Housing Minister is too focused on the goal of eradicating informal settlements by 2014. He said that this goal is a simplistic one that ignores the ongoing urbanization phenomenon and condemns the communities that exist. Allocating local government the budgets they need to gradually enhance informal settlements would be a better approach, said van Honschooten.

¶6. (SBU) Van Honschooten believes that the current housing policy contains socially desirable goals, but does not offer financial incentives that make business sense to engage the private sector. If this policy continues, contractors will continue to focus on the high-end and commercial markets, ignoring the short supply of low-income housing. Currently, South Africa is only building 15,000 houses per year to accommodate those that do not qualify for the full government subsidy, but do not make over R7,500 per month (\$1,100). Contractors need to build 135,000 units per year to meet the current demand for 600,000 units for this segment. One incentive that government could offer would be to speed up

the pace of the building approval process. (Note: About 4 million households earn the "middle" range of income from R1,500 to R7,500 per month (\$200 to \$1,100), another 4 million comprise the "high-end" market while about 7 million households require fully-subsidized housing. Of the 7 million, a housing backlog of 2 million exists. In total, South Africa's housing backlog is about 2.5 million (Ref C). End Note.)

How the USG Can Help

17. (SBU) According to van Honschooten, U.S. partners could best assist South Africa with additional low-income housing finance guarantees through individual institutions, whether it would be the banks or residential contractors. In his opinion, while the SAG and the Banking Association have not resolved the risk sharing issue on the second tranche of financing, this should not hold up outside assistance with the first tranche (Ref A). U.S. partners -- such as USAID, OPIC, or a private sector entity -- could approach associations such as the Banking Association (www.banking.org.za) or the South African Property Owners Association (www.sapoa.org.za), which includes the Residential Property Owners Association (RESPOA). U.S. agencies could also expand upon existing relationships with South African financial institutions.

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